

Order No. 44/20

**TOWN OF CHURCHILL
CHURCHILL WATER AND WASTEWATER UTILITY
2018 ACTUAL OPERATING DEFICIT RECOVERY**

March 27, 2020

BEFORE: Shawn McCutcheon, Panel Chair
Marilyn Kapitany, BSc. (Hon), MSc., Panel Member

By law, Manitoba utilities are not allowed to incur deficits. In the event that a deficit does occur, a Utility is required to obtain Board approval for recovery methodology.

The Public Utilities Board (Board) issued Order No. 151/08 on November 7, 2008 requiring all water and/or wastewater utilities to report an actual year-end deficit to the Board if the utility:

1. had not received prior approval for the deficit from the Board and such deficit either exceeds \$10,000 or represents 5% of the utility's operating budget; or
2. had received prior approval for the deficit from the Board and the actual deficit:
 - a. exceeds the previously approved amount by either \$10,000 or 5% of the utility's operating budget; or
 - b. is caused as a result that differs from that upon which said approval was granted.

1.0 Deficit Application

On October 31, 2019, the Board received an application from the Town of Churchill (Town), Churchill Water and Wastewater Utility (Utility), for approval of a 2018 deficit in the amount of \$416,811.

Along with the application, the Town submitted Council Resolution No. 2019-138, requesting the recovery of the deficit through the Utility's Accumulated Surplus. The application stated that the deficit was due to insufficient consumer water rates, aging infrastructure and a seasonal population.

Rates for the Utility were last set in Board Order No. 135/19 with rates effective October 1, 2019.

Working Capital Calculation

Board Order No. 93/09 established that utilities should maintain a minimum working capital surplus, in an amount equal to 20% of annual expenses. The working capital surplus/deficit is defined as the Utility fund balance, excluding any capital related items plus Utility reserves.

As per the 2018 audited financial statements for the Utility, the most recent information available, the working capital surplus at December 31, 2018 is as follows:

	2018
Utility Fund Accumulated Surplus	\$4,779,526
Deduct Tangible Capital Assets (TCA)	(\$8,549,159)
Add Long Term Debt	\$1,491,520
Add Utility Reserves	\$4,970,661
Equals Working Capital Surplus (Deficit)	\$2,692,548
Expenses	\$1,569,056
20% of Expenses (Target)	\$313,811

2.0 Board findings

The Board has reviewed the Town's application and found discrepancies between the Board's guidelines and the Public Utilities Board Note in the Audited Financial Statements.

As outlined in the PSAB GAAP for Manitoba Municipalities Reference Manual – Financial Statement Presentation and Disclosure, municipalities will be required to disclose in the notes to the financial statements the amount of:

1. Deferred contributions at the beginning of the year;
2. New capital grants deferred during the year;
3. The amount amortized to revenue during the year; and
4. The unamortized balance at the end of the year.

According to Note 14 in the Town's 2018 Audited Financial Statements, the amount amortized to revenue during the year was \$281,573. The Town's application stated a different amortization of capital grants/contributed TCAs for adjustment, of \$107,128.

The discrepancy between these amounts can significantly impact the actual operating deficit. In response to information requests from the Board, the Town has indicated that the amortization amount in Note 14 is for all assets owned by the Utility, none of which are contributed/donated assets. Further, the Town's basis for the \$107,128 adjustment includes capital projects that came from Town's Gas Tax Reserves. The Board does not typically include these in deficit calculation.

The Board finds that the Town's calculation is incorrect. The Board corrects the 2018 actual operating deficit amount to \$523,939 which is to be recovered through the Utility's Accumulated Surplus. The calculation is as follows:

Net Revenue (Deficit) before grant adjustment	\$(259,899)
Deduct Capital Grants Current Year	<u>\$ 264,040</u>
Net Operating Surplus (Deficit)	\$(523,939)

The Board strongly encourages the Town to work closely with its auditor(s) to ensure that the Public Utilities Board Note to the Consolidated Financial Statements is complete and accurate. If this note is omitted, incomplete, or incorrect, it limits the Board's ability to assess the Utility's financial position, and the Town's ability to set appropriate rates to sustain the Utility and its operations. Should this deficit need adjustments, the Town is to submit a revised application to the Board. A statement from the Town's auditor should be submitted noting the amount of capital grants/TCA's amortization.

3.0 IT IS THEREFORE ORDERED THAT:

1. The actual operating deficit, when calculated for regulatory purposes, of \$523,939 for 2018 incurred in Town of Churchill, Churchill Water and Wastewater Utility, is HEREBY APPROVED to be recovered through the Utility's Accumulated Surplus, effective the date of this Order.

Fees payable upon this Order - \$150.00

Board decisions may be appealed in accordance with the provisions of Section 58 of *The Public Utilities Board Act*, or reviewed in accordance with Section 36 of the Board's Rules of Practice and Procedure (Rules). The Board's Rules may be viewed on the Board's website at www.pubmanitoba.ca.

THE PUBLIC UTILITIES BOARD

"Shawn McCutcheon"
Panel Chair

"Rachel McMillin, BSc."
Assistant Associate Secretary

Certified a true copy of Order No. 44/20
issued by The Public Utilities Board



Assistant Associate Secretary